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LAY-OFF PAY PLANS

by

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LAY-OFF PAY PLANS

A NEW TYPE of unemployment benefit, guaranteeing laid-off workers up to 65 per cent of their regular wages during intermittent periods of idleness, will become available to about one million industrial workers during the coming summer. The clauses of a number of 1955 labor-management contracts which carried this feature are to go into force at various dates beginning June 1, 1956. As they become effective, the workers covered who are laid off during slack periods will be able to draw on a fund, supported solely by employer contributions, for cash benefits in addition to those received under state unemployment compensation systems.

The new benefit plan, applying now mainly in the automobile industry, does not make provision for a guaranteed annual wage, as sought by the United Automobile Workers-C.I.O., but it is a long step in that direction. The compromise arrangement to which both sides agreed—which is spreading to other industries—provides for “supplementary unemployment benefits,” S.U.B. rather than G.A.W. However, G.A.W. remains the ultimate objective of the auto union. Shortly after last year’s contracts were signed, U.A.W. officers said they intended to press for the annual pay guarantee once more when the 1955 pacts expire in 1958; the manufacturers reiterated strong opposition.

DEMAND OF STEEL WORKERS FOR PAY GUARANTEES

The partial success achieved by the auto union in its drive for wage guarantees spurred other labor organizations to demand similar benefits. A number of them won lay-off pay concessions last year. Now another important labor-management tussle over the issue is impending in the steel industry.

The wage policy committee of the United Steelworkers of America drew up at Pittsburgh, May 14-15, the demands that it will make on the steel companies in

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negotiations for new contracts to replace those which expire on June 30. Among objectives which include wage increases and liberalization of various fringe benefits, as well as supplementary unemployment benefits and premium pay for week-end work, the union is expected to give top priority to the two last-named items in its bargaining sessions with management representatives.

Although the policy group indicated at an earlier meeting, in Chicago on Mar. 6, that it would favor resort to strike action if necessary to win the two priority demands, David J. McDonald, union president, said then that he hoped a strike could be avoided. The union's bargaining position is strengthened by continuing high demand for steel. Its success last August in winning 52 weeks of unemployment benefits for 35,000 workers in the can production industry has encouraged the union to press similar demands on the steel industry.

Steel management has long maintained that annual pay guarantees are not feasible in basic steel, and it has successfully resisted such demands from the union on several occasions. The United Steelworkers nevertheless now plans to demand "up to 52 weeks of adequate benefits"—in effect, the guaranteed annual wage.

PAY GUARANTEES AND EMPLOYMENT STABILIZATION

Demands for pay guarantees grow out of the traditional practice of paying mill, factory, and other production workers only for hours actually worked. Because production in many industries tends to fluctuate sharply from season to season and from year to year—owing to shifts in consumer demand, retooling for new models, changes in production methods—employment and earnings of production workers tend to rise and fall in a similar pattern.

The principle that it is the responsibility of an industrial employer to guarantee hourly-rated employees a minimum total of earnings, regardless of ups and downs in production schedules, has been applied on a limited scale for more than half a century. It is only in recent years, however, that big, pace-setting unions have made serious efforts to obtain such pay guarantees for their members.

One of the first pay guarantee plans put into force in the United States was negotiated in 1894 by the Machine

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Printers and Color Mixers Union and the National Wall-paper Company. Numerous plans to guarantee workers a steady income were instituted in succeeding decades, frequently on the initiative of the employer. Best known were the plans established in 1923 by the Procter & Gamble Company, in 1931 by Geo. A. Hormel & Company, and in 1935 by the Nunn-Bush Shoe Company.¹

The public unemployment compensation systems, introduced under federal and state laws two decades ago, also followed the principle of employer responsibility for maintenance of worker income; employers were taxed to maintain funds from which laid-off workers could draw sums to help sustain them while looking for new jobs. The state laws, enacted under incentives set up by the Social Security Act of 1935,² were directed not only to keeping up worker purchasing power during lay-offs, but also to encouraging employers to stabilize employment. The lower a company's lay-off rate, the smaller the tax it is required to pay; hence it is to an employer's advantage to arrange work schedules to assure steady employment for his basic labor force.

LABOR PRESSURE FOR A GUARANTEED ANNUAL WAGE

Labor would be content with the public unemployment compensation system as a means of assuring steady income for the worker except for one thing: The cash benefits are considered far too small. The unions are dissatisfied also with eligibility rules which in many states limit the number of laid-off workers who may draw benefits. To liberalize the system would require amending the laws in every state. Many states in the past year or two have taken such action, but the benefits are still considerably short of labor's goal; on the average, they amount to only one-third of the regular pay of covered workers.

For some years labor has sought an alternative method of achieving more adequate income protection. To some unions the guaranteed annual wage, won through collective bargaining, has appeared to be the answer. Under G.A.W. the employer would be required to assure the hourly-rated worker that he would be employed a minimum number of

¹ See "Guarantees of Wages and Employment" *E.R.R.*, Vol. I 1947, pp. 426-428, and "Guaranteed Annual Wage," *E.R.R.*, Vol. I 1953, pp. 55-56.

² The federal law levies an employer tax of 3 per cent on the first \$3,000 paid annually to each employee, but up to 90 per cent of the tax is forgiven when states levy corresponding employer taxes to maintain unemployment compensation funds.

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hours a year—ideally 2,080 hours (52 weeks, 40 hours a week)—or be paid at regular rates if work schedules fall below that standard.

The guaranteed annual wage first appeared as a long-range goal of the C.I.O. in 1943. The following year the United Steelworkers made the first industry-wide demand for G.A.W. in negotiations with the "Big Steel" companies. The issue was taken to the National War Labor Board, which turned down the union demand but recommended that the President authorize official exploration of the subject. An advisory board to the Office of War Mobilization and Reconversion conducted the study and filed its findings in January 1947. The board concluded that guaranteed annual wage plans were feasible in many industries, including seasonal industries, but that the details should be adapted to conditions in individual industries. It recommended that the question be handled through collective bargaining rather than legislative action.

Labor's interest in G.A.W. subsided in the early postwar years, when the unions were concentrating on pushing up wage rates and winning or liberalizing health and pension plans.³ The 1951 C.I.O. convention formally pledged its support to any affiliate which might seek to negotiate pay guarantees. Two years later it adopted a resolution which said the time was "ripe for action" on G.A.W.

The demand . . . for guaranteed annual wages [the 1953 resolution stated] is an important part of the C.I.O. fight against the intolerable evils of mass unemployment. . . . Just as in the past our unions won the fight for democratic bargaining, for decent pay, for pensions and social security, so they must win their fight to lift the fear of lack of work and irregular incomes.

The U.A.W.'s 1953 convention unanimously adopted a resolution to work for G.A.W. at the bargaining sessions with major producers in 1955. U.A.W. President Walter P. Reuther promised "to nail down the guaranteed annual wage in the automotive industry." The union established an advisory committee to study the question and help draw up concrete proposals.

Meanwhile, a number of other unions were obtaining limited guarantees against loss of income due to lay-offs in individual plants. Between 1951 and 1954 the United

³ The United Automobile Workers-C.I.O. asked the Ford Motor Company for annual wage guarantees in 1948 but did not press the demand.

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Packinghouse Workers-C.I.O. and the International Longshoremen's Association-A.F.L. won guarantees of 1,900 to 2,000 hours of work a year (or equivalent pay) from several eastern firms. A number of A.F.L. Teamsters' locals in 1953 obtained minimums of 40 hours a week and 50 weeks a year for high-seniority employees. Other unions which made similar gains in that period included locals of the Amalgamated Clothing Workers-C.I.O. and the A.F.L. butchers', laundry workers', transit employees' and flight engineers' unions. The decisive battle for G.A.W., however, was not joined until the spring of 1955, when the U.A.W., negotiating with the Ford Motor Company and General Motors, carried its fight to the brink of strike action.

Supplementary Unemployment Benefits

IN AN ADDRESS at the 1955 U.A.W. convention, held in Cleveland from Mar. 27-Apr. 1, President Reuther predicted that the forthcoming negotiations with the automobile companies would constitute a historic chapter in labor's "crusade to gear economic abundance to human needs." He called the guaranteed annual wage a necessary "economic tool" to counteract "the growing and serious imbalance between our ability to create wealth . . . and the inability of millions of families to consume that abundance."

The convention endorsed a G.A.W. plan which had been developed at the U.A.W. National Economic and Collective Bargaining Conference the previous November, but it agreed that it would be wise to keep an open mind on any alternative plan which might be offered during the negotiations. The union proposal called for guaranteeing seniority workers up to 52 weeks of work a year at 40 hours a week; the number of weeks was to depend on the worker's length of service with the company. Non-seniority workers would be assured at least 40 hours of work in any week for which they had received no prior notice of lay-off. Workers would be compensated for time not worked, despite the guarantee, at regular rates minus any sums received from state unemployment compensation funds.

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U.A.W. negotiations with Ford began on Apr. 12, 1955, and with General Motors on Apr. 16. The two companies rejected the union plan; they offered instead to grant workers such auxiliary benefits as a stock-purchase plan and non-interest-bearing loans. Union representatives in turn rejected these offers. In the face of an apparent deadlock, the U.A.W. told its Ford locals on May 26 to prepare for a strike.

ATTAINMENT OF LAY-OFF PAY IN 1955 NEGOTIATIONS

When Ford came forward with another counter-proposal—to give unemployment benefits supplemental to sums received in state unemployment compensation—the strike deadline of June 2 was put back four days. The union then accepted the S.U.B. plan. Agreement was announced June 6, a few hours after the strike deadline had passed and after stoppages had actually occurred in a few Ford plants. The Ford contract, to run for three years, covered 140,000 production workers.⁴ They were to be eligible for benefits after June 1, 1956, if in the intervening period certain favorable rulings were obtained in regard to company taxes and worker eligibility for unemployment compensation.

With Ford negotiations completed, the strike deadline at General Motors was extended from June 7 to 13. On the latter date, as G.M. workers in some plants began to walk out, negotiators announced they had reached agreement on a contract embodying the S.U.B. plan that had been put into the Ford contract. The G.M. contract covered 375,000 production workers. An additional 35,000 G.M. workers came into the plan the same day under a contract with the C.I.O. electrical workers' union.

After the two largest automobile companies had agreed to the lay-off pay plan, the smaller producers, makers of auto parts, and the auto tool and die shops soon fell in line. Within a few months around 100 pacts calling for supplementary unemployment benefits, and covering one million workers, had been signed; most of them were negotiated by the U.A.W.

A flurry of short-lived strikes preceded the signing of

⁴ Ford announced June 24, 1955, that it would extend similar jobless pay benefits to approximately 47,000 salaried workers. The company disclosed Dec. 1 that it was offering these employees a stock-purchase and savings plan similar to that turned down by the union.

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similar contracts on Sept. 1 and 2 with Chrysler, third largest automobile producer with 139,000 covered employees, and American Motors with 24,000 employees. Some salaried workers were included in these plans. U.A.W. contracts with the two divisions of the Studebaker-Packard Corporation, signed Nov. 9 and Dec. 21, extended supplementary lay-off benefits to approximately 17,000 more auto workers.

The pay guarantee was provided for also in U.A.W. contracts with airplane and farm equipment producers. Allis-Chalmers, with 17,700 employees, signed an agreement with S.U.B. provisions on Sept. 2. The Bendix Aviation Corporation agreed, after a week's strike, to a contract which brought 20,000 workers under the plan. A 32-day strike at International Harvester was terminated Sept. 17 by an agreement giving S.U.B. protection to about 40,000 workers. U.A.W. agreements with the Caterpillar Tractor Company and John Deere Company extended S.U.B. benefits to another 30,000 farm equipment workers.

NEW JOBLESS PAY FACTS OUTSIDE AUTO FIELD

Meanwhile, unions outside the automotive field were winning similar benefits for their members. After a week's walkout in June 1955, the National Maritime Union-C.I.O. signed contracts containing S.U.B. features with a number of eastern seaboard and Gulf Coast shipping operators and tanker companies. About the same time the Textile Workers Union-C.I.O. and a Connecticut fabric house agreed to a new lay-off pay plan.

An 84-day strike of 1,300 Greyhound bus employees ended on June 29 when the company and an A.F.L. transit union (Street, Electric Railway and Motor Coach Employees' Union) approved a contract providing for weekly pay guarantees and other benefits. The first lay-off compensation plan in the rubber industry was agreed to last summer by the United Rubber Workers-C.I.O. and the Inland Rubber Manufacturing Company of Dayton. The A.F.L. meat cutters' union during the autumn negotiated its first pay guarantee plan in the poultry industry.

The United Steelworkers won its first S.U.B. victory in August 1955 contracts covering 35,000 employees of the American Can and Continental Can companies. A supple-

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mentary pay plan, with benefits not restricted to lay-off emergencies, was established for 23,000 workers by agreements signed in September between the United Glass and Ceramic Workers-C.I.O. and the Pittsburgh Plate and Libbey-Owens-Ford glass companies.

Not all the unions which made demands for supplemental lay-off pay succeeded in obtaining it. The most striking failure was that of the C.I.O. electrical workers' union. It went into negotiations with General Electric last summer insisting that it would hold fast to its demand for a guaranteed annual wage, but it finally settled for a contract with no additional lay-off benefits.

PROVISIONS OF LAY-OFF PAY PLANS FOR AUTO WORKERS

Supplementary unemployment benefit plans negotiated over the past year are of two general types. Most of the plans, providing for creation of a single fund from which eligible employees may draw specified sums in the event of lay-off, offer what amounts to unemployment insurance. The other type of plan establishes separate accounts for each employee; the money deposited in the account remains his property regardless of circumstances, but it can be withdrawn only in certain emergencies such as sickness or lay-off. Plans of the first type are integrated with state unemployment compensation systems; the other plans are independent of the state systems.

The prototype of the S.U.B. program is the plan initiated by Ford and accepted by other automobile producers. Under the Ford plan the company pays into a trust fund the sum of 5c per man-hour worked since June 1, 1955.⁵ In order to permit an accumulation of resources to care for future claims, no benefits were to be paid out for one year or until June 1, 1956.⁶ Benefits will become payable then only to employees laid off thereafter or in the 31-day period preceding June 1. Many of the auto workers laid off this spring thus will not be entitled to the new benefits.

When the fund reaches a specified amount, the employer's

⁵ The Ford plan provides for separate funding for defense workers, the Chrysler plan for separate production and salaried workers' funds. The can industry agreement calls for 8c per man-hour contributions, to be raised to 5c if and when required.

⁶ Some of the later contracts required retroactive funding, so that benefits could be paid as soon as under the Ford agreement. Others set back the dates for payment of benefits. International Harvester benefits will not become available until June 1, 1957; American Motors contributions were deferred to Sept. 15, 1956, and benefits to Sept. 15, 1957.

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contributions are to cease, but whenever the fund drops below that figure, employer contributions are to be resumed. The maximum funding point amounts to approximately \$400 per worker. On the basis of June 1, 1955, employment, the Ford contract set maximum funding at \$55 million; the General Motors contract at \$150 million; the Chrysler contract at \$49 million (plus an additional \$3.1 million for salaried workers' funding). After three years the maximum funding point is to be reviewed annually for consideration of necessary adjustments.⁷

VARIATION OF BENEFITS BY LENGTH OF SERVICE

Only employees covered by a state unemployment compensation system are eligible for private supplementary benefits under the automobile contracts. The worker's claim on the S.U.B. fund depends on the number of so-called credit units he has accumulated at the time he is laid off. During the first two years of the agreement, workers with less than ten years of service with the company acquire one-fourth of a credit unit for each week in which they have worked at least 32 hours. Those with more than ten years of service acquire one-half of a unit for each work-week. Beginning with the third year of the agreement, all workers are to receive one-half of a credit unit for each week worked. No worker may accumulate more than 26 credit units.

In the event of lay-off, the employee surrenders a certain number of credit units in return for a weekly cash benefit. The number of credits charged against him depends on his seniority and on the size of the fund at the time he puts in his claim. If the fund equals 85 per cent or more of the maximum funding amount, any worker with at least one year of service must surrender one credit unit for one weekly benefit. The smaller the fund, the more credit units he must give up; how many more depends on seniority. For instance, if the fund is at 50 per cent of maximum funding, a five-year employee must "pay" 1.67 credit units for a week's benefit, while the 20-year man puts up only one credit unit.

The size of the weekly benefit depends on the amount of the worker's regular earnings and the amount he will

⁷ The maximum funding point will not be reached during the first three years, even if no benefits are paid out, unless employment increases substantially.

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receive from the state unemployment compensation system.⁸ The benefit formula is geared to give the laid-off worker, in combined private and state benefits, 65 per cent of his take-home pay for the first four weeks of eligibility, and 60 per cent during the ensuing 22 weeks.⁹ Thus if a worker earns \$100 a week, or \$87.02 after taxes,¹⁰ and his unemployment benefit from the state fund is \$42 a week, the company benefit will amount to \$14.56 for the first four weeks and \$10.21 for 22 additional weeks, or an initial weekly total of \$56.56, then \$52.21.

Most of the contracts in the automobile industry follow the Ford-G.M.-Chrysler pattern as described above. The Allis-Chalmers contract allows a total of 65 per cent of regular pay for the entire 26 weeks, and gives laid-off workers the option of drawing the supplementary benefit in a lump sum after state benefits have been exhausted. The most generous benefit system is that embodied in the can companies' contracts; it assures 65 per cent of regular pay for up to 52 weeks of unemployment.

INDIVIDUAL INCOME SECURITY ACCOUNTS FOR WORKERS

A quite different plan for supplementary pay, introduced under several contracts negotiated last year, has won more favor among employers than the standard S.U.B. plan. Known as the "individual income security plan," and sometimes as the "glass plan" because of its adoption in the glass industry, it sets up private savings accounts for each worker.

Under labor-management contracts with the Pittsburgh Plate and Libbey-Owens-Ford glass companies, the employer contributes 5c a man-hour worked into individual trust funds. If an employee is out of work because of temporary lay-off, sickness, or injury, he may draw from \$15 to \$30 a week, as he chooses, but not more than 10 per cent of the balance in his account. If he quits work, retires, or is discharged, he draws whatever remains in the

⁸ Seniority has no bearing on the amount of a worker's weekly benefit. The size of the fund does not affect the size of the weekly payment unless the fund drops below 12 per cent of maximum funding, in which case the benefit is reduced by 20 per cent. If the fund goes below 4 per cent of maximum funding, all benefits cease.

⁹ In all except four states, unemployment compensation does not begin until the second week of idleness. Starting date of the supplementary benefit under the auto contracts follows the particular state's rule. Maximum weekly benefits paid currently under the state systems range from \$24 to \$45, while maximum duration of compensation is from 16 to 30 weeks, most frequently 26 weeks.

¹⁰ Taxes for worker with two dependents.

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account. The balance goes to his beneficiary if he dies while still on the job. There is no limit on employer contributions. The individual accounts are built up to a maximum of \$600; thereafter, employer contributions go into a separate account from which the worker may draw for vacation expenses.

Under a similar plan negotiated between U.A.W. and the Automotive Tool and Die Manufacturers' Association, a laid-off worker may receive up to 50 per cent of the money in his personal account. The remainder becomes available to him when he permanently severs connections with the company.

A plan agreed to by the A.F.L. sugar workers' union and the California and Hawaiian Sugar Refining Corporation provides for a pay-as-you-go system, without formal funding. After two weeks' lay-off, workers may receive up to 65 per cent of take-home pay for a maximum of 25 weeks. A C.I.O. textile workers' plan at the American Velvet Company in Connecticut integrates the supplemental benefit into a pre-existing profit-sharing pension plan and is limited to employees with at least ten years of service. Eligible laid-off workers are entitled to \$10 a week for 26 weeks, while they are receiving \$30 weekly from the state system, and to \$40 a week from the employer for an additional 26 weeks.

INTEGRATION WITH STATE UNEMPLOYMENT BENEFITS

Application of the supplementary lay-off benefit plans negotiated last year was made contingent on favorable rulings on various points by governmental authorities. The plans agreed to by the major automobile manufacturers, for example, were not to take full effect until:

1. States in which two-thirds of the company's covered workers were employed had ruled that receipt of supplementary benefits would not result in withholding or reduction of state unemployment benefits.
2. The company was assured by federal authorities that its contributions to the S.U.B. fund were deductible as a business expense in determining profits for income tax purposes.
3. Federal authorities had ruled that an employee might exclude contributions to the lay-off fund in computing overtime wages under the Fair Labor Standards Act.¹¹

¹¹ The contracts stipulated that in event of unfavorable rulings on the above points, disposition of the 5¢ per man-hour employer contribution would be renegotiated with the union; if no agreement was reached, the money was to be used to raise wages.

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All of these conditions were met. The Labor Department ruled on Sept. 8, 1955, that employer contributions were not wages within the meaning of the Fair Labor Standards Act; hence employers would not be required to convert the five-cents-an-hour rate to time-and-a-half when the hour worked was overtime. The Treasury Department ruled late in the year that payments into trust funds for lay-off benefits were deductible business expenses, and a similar ruling on payments into individual worker's accounts was issued shortly thereafter.

In April 1956 Kentucky became the 12th state to issue an administrative ruling to the effect that benefits received from private lay-off funds do not constitute wages within the meaning of the state's unemployment compensation law.¹² Workers in the 12 states were thus made eligible to receive full unemployment benefits from public and private systems simultaneously. The Georgia legislature amended that state's unemployment compensation law to the same end. The percentage of workers covered by the automobile contracts in all 13 states was more than sufficient to satisfy the two-thirds provision and put the contracts into force.

CHALLENGING OF DUAL BENEFITS IN CERTAIN STATES

Workers in some other states cannot lawfully receive unemployment compensation from both private and public sources. Virginia has amended its unemployment compensation act specifically to forbid concurrent benefits, although at the same time it liberalized benefits under the tax-supported system. The Ohio legislature last June voted down a bill to allow integration of public and private unemployment compensation systems; a similar proposal, put on the November ballot by petition, was rejected at the polls.¹³ A month before the auto contracts were signed last year, an Oregon court ruled that private idle-time payments were equivalent to wages and that recipients therefore were not eligible for unemployment compensation.

A legal shadow hangs over double benefit payments even in states where favorable rulings have been obtained. The Connecticut Manufacturers Association on Apr. 10 filed a

¹² The 11 states in which similar rulings had already been handed down were Arkansas, California, Connecticut, Delaware, Florida, Massachusetts, Michigan, New Jersey, New York, Pennsylvania, and Washington.

¹³ Approximately 17 per cent of G.M.'s labor force and 11 per cent of Ford's labor force are employed in Ohio.

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friendly court suit challenging the state attorney general's ruling that supplementary jobless pay did not constitute wages within the meaning of the unemployment compensation act. The petitioners asked an injunction to forbid payment of state benefits to workers receiving lay-off pay. New York Attorney General Jacob K. Javits ruled in favor of the two-benefit plan last October and said there was no doubt in his mind that supplementary benefits did not legally disqualify workers for unemployment compensation. At the same time, however, Javits felt the state legislature should buttress that interpretation by amending the law accordingly.

Differences Over Lay-Off Pay Plans

SOME of the companies which have agreed to pay supplementary unemployment benefits share labor's enthusiasm for lay-off pay. Ford, first of the big companies to sign an S.U.B. contract and in large measure the author of the basic plan, has become its leading defender in industry circles. However, important differences between Ford's approach to lay-off benefits and that of the U.A.W. portend head-on clashes in future negotiations. The company regards the present plan as a substitute for increases in public unemployment compensation; the U.A.W. views it as a transitional program that will lead to a guaranteed annual wage.

Auto union officials are far from giving up their determination to win 52 weeks of full-time work (or pay) a year. U.A.W. President Reuther recently stated that labor had won the guaranteed annual wage in principle if not in actuality. He said the union would work toward "building this G.A.W. thing to 100 per cent, so that it will cost them [employers] just as much to keep us unemployed as it does fully employed, and then you watch how fast they find a job for us on a full-time basis."¹⁴

Ford denies that it acceded in any way to the G.A.W. principle. A company official said last autumn that Ford would have taken a strike of "indefinite duration" in 1955

¹⁴ Speaking at U.A.W. educational conference, Washington, D. C., Apr. 24, 1956.

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rather than grant the "unthinkable" demand for G.A.W., and that "it will be no different in 1958 than in 1955."¹⁵

FORD'S CRITERIA FOR ACCEPTABLE LAY-OFF PAY PLAN

In a booklet on the S.U.B. plan, issued by the company last summer, Ford Vice President John S. Bugas gave a frank outline of the reasoning behind the management offer of supplementary unemployment pay. The union, he said, was justified in seeking more income security for its members. Unemployment compensation benefits were inadequate; liberalization of benefits by state legislatures would move slowly; and the result would be mounting pressure from labor for a guaranteed annual wage.

S.U.B. was evolved by the company to meet the worker's grievance and at the same time reduce the pressure behind the G.A.W. campaign. In addition, the company recognized that recurring lay-offs, necessitated by retooling for new models, placed responsibility on management to make provision for its basic labor force. By giving lay-off benefits to its regular workers the company would help assure their loyalty and their availability when full production schedules were resumed.

The obligation which the company was willing to assume, however, was limited. An acceptable plan would have to meet certain specifications or include certain features as follows:

1. Total benefits to the worker, from public and private sources, not to exceed 65 per cent of take-home pay.
2. Private benefits to recede automatically as state benefits approach the 65 per cent maximum.
3. Built-in limits on the size of the fund, in order to place a ceiling on company obligations and ward off pressure for more generous benefits.
4. Safeguards against excessive liabilities while the fund is small.
5. Weekly benefits to be larger for short-term lay-offs, smaller for long-term lay-offs, so as to favor workers who have a continuing attachment to the company.

The plan as negotiated conformed to the foregoing conditions.

Ford in recent months has waged a campaign to win

¹⁵ Malcolm L. Denise, Ford Motor Company labor and industrial relations manager, speaking before American Management Association, New York City, Sept. 26, 1955.

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business support for S.U.B. and at the same time freeze existing benefits at the limits established by the 1955 contracts. Company officers have denounced efforts by other business interests to bar integration of private and state benefit systems, and have recommended state legislation to fix total lay-off pay maximums at 65 per cent of take-home pay. They have suggested also that negotiations with the union in 1958 be conducted on an industry-wide basis.

BASES FOR BUSINESS OPPOSITION TO PAY GUARANTEES

The National Association of Manufacturers, which has actively opposed the guaranteed annual wage for more than a decade, has taken the lead in raising objections to S.U.B. plans. N.A.M. President Henry G. Riter, 3rd, said on June 6, 1955, that he thought the Ford contract would have a damaging effect on the national economy. The N.A.M. and its Illinois affiliate called a conference in Chicago last June on "America's Economic Crisis—the Guaranteed Annual Wage." One association officer attending the meeting warned that the automobile lay-off pay plans "could sow the seeds of economic disaster"; another asserted that they would lead to "union paternalism over its members."

It has been contended that lay-off pay plans are inflationary; that they will add to production costs and hence to the prices of consumer goods; that they will reduce the incentive to seek new jobs; that they will tend to freeze workers in particular jobs; that they will tie up too much money and discourage investment of risk capital. The N.A.M. holds that employment should be stabilized by introduction of sound business methods. It has developed educational material advising management on means to maintain steady production, and hence employment, and so avert labor demands for costly wage guarantees. The recommended measures include diversification of product, improved sales techniques, building of inventory in slack periods, increased flexibility in use of a basic labor force, and so on.

The N.A.M. last November approved the type of income security plan adopted in the glass industry, under which the employer contributes to individual drawing accounts for each worker. That device is said to encourage thrift and push a laid-off worker into looking for a new job, for the benefits come out of his own money rather than from an employer's funds.

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Many unions oppose the individual account system as a form of forced savings or deferred wages. The United Steelworkers early this year turned down an offer of such a plan from International Nickel; the union preferred to carry its demand for 52 weeks of lay-off pay into this summer's negotiations.

DISPUTE ABOUT IMPACT OF NEW BENEFITS ON ECONOMY

The unions argue that S.U.B. or G.A.W. will help to ward off depression and preserve prosperity because the income guarantees will bolster purchasing power and the market for consumer goods in times of general business recession or in places affected by scattered economic setbacks. Those opposed to lay-off pay say it will interfere with economic expansion, place heavy cost burdens on industry, and be ruinous to small firms.

The guaranteed annual wage is especially feared by business because it would impose an indefinite liability. The liability involved in supplementary unemployment benefits, on the other hand, can be predetermined, so that a company can more readily decide whether it is able to assume the fixed-cost burden.

From the standpoint of a company, it is immaterial how big a slice of total cash benefits in a new contract goes into the S.U.B. fund, or how much goes into other benefits, so long as the whole cost of the contract is acceptable. From the standpoint of the workers, there is wide variation in the potential gains from different benefits. Workers with long terms of service are the last to be laid off and hence the least likely to benefit from a supplementary unemployment compensation program. It is thus possible that older workers would prefer higher wages or pensions to lay-off protection. Ford actually offered more than a 5c per hour contribution to the S.U.B. fund, but the union decided to take part of the proffered amount in the form of other cash benefits.

Shortly after the Ford and General Motors contracts were signed, *Fortune* noted that they posed a major problem for independent and marginal companies in the mass production industries; such companies are least able to bear added costs, but their workers are most in need of the benefits. It was suggested that the S.U.B. movement might lead to additional mergers and to industry-wide bargaining

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in the automotive field.¹⁶ A recent analysis of the automobile agreements pointed out that lay-off pay would ultimately prove more costly for the independents than for the large companies. By 1960 the "Big Three" of the industry will be paying from less than 1c to 3c per hour for support of both public and private unemployment benefit systems, whereas the smaller companies will have to pay from 9c to 11c an hour to support the same level of benefits for their workers.¹⁷

Opinions differ on whether the added cost of lay-off pay to business will promote stabilization of employment. An official of Continental Can told a management group that his company was still wrestling with the problem of adjusting to the new program. One of the decisions to be made was whether it would be wiser to overhaul standard production methods and produce for inventory during slack periods—thus avoiding payment of lay-off benefits—or continue laying off workers and thereby avoid the cost of new storage facilities for slack-time production.¹⁸

Sumner H. Slichter, Harvard economist, has discounted most of the popular objections to supplementary unemployment benefits. He contends that they would not harm the small or weaker employer, because the unions would not be so foolish as to insist that such companies carry an intolerable cost burden.¹⁹ S.U.B. in his opinion would have only minor inflationary effects and would exert little influence on development of automation. Slichter suggested that the agreements in the automobile industry were likely to spur state legislators to lift tax-supported unemployment compensation nearer to the level of the new lay-off benefits, which he felt would assist business by helping to sustain purchasing power.²⁰

EXTENT OF FUTURE DEMANDS FOR LAY-OFF PAY

Views on how far labor as a whole will go in pressing for lay-off pay have undergone a change in recent months. Expectations of a great wave of S.U.B. demands in 1956

¹⁶ "Labor," *Fortune*, July 1955, pp. 47-50.

¹⁷ Edward D. Wickersham (assistant professor of industrial relations, University of Detroit), "The Ford Agreement," *Harvard Business Review*, January-February 1956, p. 61.

¹⁸ W. A. Lacke, address to American Management Association, Chicago, Feb. 15, 1956.

¹⁹ U.A.W. agreed to a year's delay for initiation of the S.U.B. program by American Motors out of consideration for the company's difficult financial position.

²⁰ Sumner H. Slichter, "One View of the Effects of the Ford-G.M. Contracts," *Monthly Labor Review*, October 1955, p. 1115.

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have not materialized. The extent of future demands may depend on the outcome of negotiations in the steel industry. Slichter thinks that S.U.B. agreements might be extended to cover ten million workers at most in the next five years, or one out of four of those now covered by state and railroad unemployment compensation systems. Because S.U.B. contracts are sought only in industries where lay-offs are chronic, the ten-million coverage would benefit a relatively large percentage of the unemployed, possibly as much as one-half. Therefore, the "usefulness [of lay-off pay] in sustaining incomes and sustaining markets in periods of recession will be fairly substantial." ²¹

²¹ *Ibid.*, p. 1117.

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